

**BLIMPIE OF CALIFORNIA, INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001**

BLIMPIE OF CALIFORNIA, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Blimpie of California, Inc.

We have audited the accompanying balance sheets of BLIMPIE of CALIFORNIA, INC. (a C corporation) as of December 31, 2002 and 2001 and the related statements of income (loss), stockholder's equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BLIMPIE of CALIFORNIA, INC. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted the United States of America.

March 3, 2003  
Atlanta, Georgia

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HABER, ARONOFF & WYNN LLP

Glennridge Highlands Two 5565 Glenridge Connector, Suite 200 Atlanta, Georgia 30342

404.292.9651 • Fax: 404.276.3915 • [www.hawcos.com](http://www.hawcos.com)

A Summit International Affiliates Certified Public Accountants

BLIMPIE OF CALIFORNIA, INC.  
BALANCE SHEETS  
DECEMBER 31,

ASSETS

	<u>2002</u>	<u>2001</u>
<u>Current assets</u>		
Cash	\$ 23,257	\$ 14,509
Accounts receivable, net of allowance for doubtful accounts of \$30,000 for 2002 and \$30,000 for 2001	<u>48,934</u>	<u>92,749</u>
Total current assets	<u>72,191</u>	<u>107,258</u>
<u>Equipment</u> , at cost, net of accumulated depreciation of \$14,522 for 2002 and \$14,052 for 2001	<u>792</u>	<u>1,262</u>
<u>Other assets</u>		
Advances to affiliates	210,798	210,798
Advances to officers	259,743	199,059
License agreement, net of accumulated amortization of \$87,916 for 2002 and \$82,916 for 2001	<u>12,084</u>	<u>17,084</u>
Total other assets	<u>482,625</u>	<u>426,941</u>
	<u>\$ 555,608</u>	<u>\$ 535,461</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

<u>Current liabilities</u>		
Lines of credit	\$ 82,012	\$ 88,579
Accounts payable and accrued expenses	167,434	242,604
Due to advertising fund	<u>218,586</u>	<u>124,226</u>
Total current liabilities	<u>468,032</u>	<u>455,409</u>
<u>Deferred income</u> , net of deferred expense of \$21,500	<u>36,500</u>	<u>60,500</u>
<u>Stockholder's equity</u>		
Common stock, no par value: 10,000 shares authorized, 640 shares issued and outstanding	640	640
Paid-in capital	83,627	83,627
Accumulated deficit	<u>(33,191)</u>	<u>(64,715)</u>
Total stockholders' equity	<u>51,076</u>	<u>19,552</u>
	<u>\$ 555,608</u>	<u>\$ 535,461</u>

See auditors' report and accompanying notes

BLIMPIE OF CALIFORNIA, INC.  
 STATEMENTS OF INCOME (LOSS)  
 FOR THE YEARS ENDED DECEMBER 31,

	<u>2002</u>	<u>2001</u>
<u>Revenue</u>		
Continuing franchise fees	\$ 417,179	\$ 471,845
Initial franchise fees	24,000	5,000
Other	<u>40,647</u>	<u>53,557</u>
Total income	<u>481,826</u>	<u>530,402</u>
 <u>Expenses</u>		
Continuing licensing fees	169,442	189,041
General and administrative expense	250,839	348,199
Rent	<u>30,021</u>	<u>51,562</u>
Total expenses	<u>450,302</u>	<u>588,802</u>
Income (loss) before taxes	31,524	(58,400)
Income taxes	<u>0</u>	<u>0</u>
Net income (loss)	<u>\$ 31,524</u>	<u>\$ (58,400)</u>

See auditors' report and accompanying notes

BLIMPIE OF CALIFORNIA, INC.  
STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

	Common Stock		Paid-in Capital	Equity (Deficit)	Advances to Total
	Shares	Amount			
Balances, January 1, 2001	640	\$ 640	\$ 83,627	\$ (6,315)	\$ 77,952
Net loss	-	-	-	(58,400)	(58,400)
Balances, December 31, 2001	-	640	83,627	(64,715)	19,552
Net income	-	-	-	31,524	31,524
Balances, December 31, 2002	<u>640</u>	<u>\$ 640</u>	<u>\$ 83,627</u>	<u>\$ (33,191)</u>	<u>\$ 51,076</u>

See auditors' report and accompanying notes

BLIMPIE OF CALIFORNIA, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

Increase (Decrease) In Cash

	<u>2002</u>	<u>2001</u>
<u>Cash flows from operating activities</u>		
Net income (loss)	\$ 31,524	\$ (58,400)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for bad debts	30,000	30,000
Depreciation and amortization	5,470	6,119
Changes in operating assets and liabilities		
(Increase)Decrease in accounts receivable	13,815	(87,941)
Decrease in prepaids and other current assets	0	2,078
Increase(Decrease) in accounts payable and accrued expenses	(75,170)	81,899
Increase(Decrease) in due to advertising fund	94,360	(84)
Increase(Decrease) in deferred income	(24,000)	18,000
Net cash provided(used) by operating activities	<u>75,999</u>	<u>(8,329)</u>
<u>Cash flows from investing activities</u>		
Repayment of officer loans	0	23,075
Loans to officers	0	(100,894)
Repayment of advances to affiliates	0	44,000
Advances to affiliates	(60,684)	(16,261)
Net cash used by investing activities	<u>(60,684)</u>	<u>(50,080)</u>
<u>Cash flows from financing activities</u>		
Net (payments)proceeds on/from short-term borrowings	(6,567)	21,519
Contributions to capital	0	0
Net cash provided(used) by financing activities	<u>(6,567)</u>	<u>21,519</u>
Net increase(decrease) in cash	8,748	(36,890)
Cash, beginning	<u>14,509</u>	<u>51,399</u>
Cash, ending	<u>\$ 23,257</u>	<u>\$ 14,509</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the years for interest	\$ 3,483	\$ 3,617
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See auditors' report and accompanying notes



BLIMPIE OF CALIFORNIA, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

Increase (Decrease) In Cash

See auditors' report and accompanying notes

BLIMPIE OF CALIFORNIA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

**Note A**

**Organization and Summary of Significant Accounting Policies**

Blimpie of California, Inc., a California Corporation, (the Company), markets Blimpie restaurant franchises in California, as an area franchisor. All of the Company's business is dependent upon the economic conditions within the state of California.

Cash and cash equivalents:

For purposes of the statement of cash flows, all unrestricted investment instruments with original maturities of three months or less are deemed cash equivalents. The Company had no cash equivalents at December 31, 2002 and 2001.

Revenue recognition:

The Company reports franchise fees as income when all material services or conditions relating to the sale of a franchise have been substantially performed or satisfied in accordance with the terms of the franchise agreement. The Company reports direct costs related to franchise fees when the income is recognized.

Continuing franchise fee income and license expense are based on a percentage of the gross revenues earned by operating restaurant units as defined in the franchise agreements.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation:

Depreciation of equipment is computed principally on an accelerated method over five years based on the estimated useful lives of the assets.

License agreement:

The license agreement cost is being amortized on a straight-line basis over a 20-year period.

Basis of presentation:

Certain 2001 balances have been reclassified to conform to 2002 presentation.

BLIMPIE OF CALIFORNIA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

**Note B**  
**Franchising Operations**

License agreement:

The Company has a license agreement with Blimpie International, Inc. ("BII"), for the exclusive right to use the "Blimpie" trademark and technical information (recipes, methods, processes, etc.) in California. Terms of the license agreement provide that the Company is charged an initial franchise fee for each California location licensed and a continuing license fee of 2.5% of the gross revenues of the restaurants in operation. The term of the license agreement is for 99 years beginning July 1984 with renewal options as defined in the license agreement.

The license agreement, originally signed in 1984, was amended on April 30, 1992. The amended license agreement requires the Company to license not less than three Blimpie locations annually for the next 15 years. The obligation is cumulative and the Company will be credited in succeeding years for the number of Blimpie locations licensed in excess of three in any given year. Should the Company not comply with this requirement, the license agreement shall be deemed automatically terminated and cancelled. However, the agreement shall remain as to those Blimpie Restaurants developed or in the process of development with respect to any franchise or subfranchise executed between the Company and any third party as of the date of default.

Significant commitments and obligations:

In accordance with the terms of each franchisee's agreement, the Company is obligated to provide the following supervision assistance and services: layout, training and pre-opening assistance, operations manual, continuing assistance, as specified in the Uniform Franchise Offering Circular, advertising and promotion, supplies, and pricing.

Franchise ownership changes:

For the year ended December 31, 2002, franchise ownership changes are summarized as follows:

Number of franchises in operation as of December 31, 2001	47
Number of franchises opened during the year	3
Number of franchises closed during the year	<u>(3)</u>
Number of franchises in operation at December 31, 2002	<u><u>47</u></u>

**Note C**  
**Related Party Transactions**

Advances to affiliates:

At December 31, 2002 and 2001, advances to affiliates with common ownership for working capital purposes totaled \$210,798 for 2002 and \$210,798 for 2001. Interest earned on advances to affiliates totaled \$0 for 2002.

BLIMPIE OF CALIFORNIA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002 AND 2001

**Note C**

**Related Party Transactions - Cont'd**

**Advances to officers:**

As of December 31, 2002 and 2001, the Company was owed \$259,743 and \$199,059, respectively, for advances made to two of the Company's officers. Interest was charged at rates of 6% to 7% per annum. Interest earned on advances to officers amounted to \$0 and \$0 for the years ended December 31, 2002 and 2001, respectively.

**Note D**

**Lines of Credit**

The Company has entered into credit agreements with two banks under which it may borrow up to \$100,000 under revolving lines of credit. Current borrowings bear interest from 7.25% to 9.27% per annum. The stockholder has guaranteed borrowings under the lines of credit. During the years ended December 31, 2002 and 2001, interest incurred totaled \$3,483 and \$3,617, respectively.

**Note E**

**Due to Advertising Fund**

The Company receives a percentage of each franchisee's sales to be placed in an advertising co-operative fund, at the Company's sole discretion as described in the franchise agreements. At December 31, 2002 and 2001, the Company owed \$218,586 and \$124,226, respectively, to the advertising co-operative fund.

**Note F**

**Commitments**

During the years ended December 31, 2002 and 2001, the Company incurred rent expense of \$30,021 and \$51,562, respectively.

**Note G**

**Related Party**

Effective January 24, 2002, the Company's principal shareholder purchased a majority interest in Blimpie International, Inc.

**BLIMPIE OF CALIFORNIA, INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002**

BLIMPIE OF CALIFORNIA, INC.

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Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Blimpie of California, Inc.

We have audited the accompanying balance sheets of BLIMPIE of CALIFORNIA, INC. (a C corporation) as of December 31, 2003 and 2002, and the related statements of income (loss), stockholder's equity (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BLIMPIE of CALIFORNIA, INC. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted the United States of America.

*Habif, Arogeti & Wynne, LLP*

March 26, 2004

Atlanta, Georgia

BLIMPIE OF CALIFORNIA, INC.  
BALANCE SHEETS  
DECEMBER 31,

ASSETS

	<u>2003</u>	<u>2002</u>
<u>Current assets</u>		
Cash	\$ 40,104	\$ 49,715
Accounts receivable, net of allowance for doubtful accounts of \$30,000 for 2003 and \$30,000 for 2002	<u>236,496</u>	<u>106,391</u>
Total current assets	<u>276,600</u>	<u>156,106</u>
<u>Equipment</u> , at cost, net of accumulated depreciation of \$14,989 for 2003 and \$14,522 for 2002	<u>325</u>	<u>792</u>
<u>Other assets</u>		
Advances to affiliates	210,798	210,798
Advances to officers	335,988	282,788
License agreement, net of accumulated amortization of \$92,916 for 2003 and \$87,916 for 2002	<u>7,084</u>	<u>12,084</u>
Total other assets	<u>553,870</u>	<u>505,670</u>
	<u>\$ 830,795</u>	<u>\$ 662,568</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

<u>Current liabilities</u>		
Lines of credit	\$ 67,342	\$ 82,012
Accounts payable and accrued expenses	121,701	157,993
Due to advertising fund	<u>340,826</u>	<u>307,998</u>
Total current liabilities	<u>529,869</u>	<u>548,003</u>
<u>Deferred income</u> , net of deferred expense of \$21,500	<u>25,845</u>	<u>35,074</u>
<u>Stockholder's equity</u>		
Common stock, no par value: 10,000 shares authorized, 640 shares issued and outstanding	640	640
Paid-in capital	83,627	83,627
Accumulated deficit	<u>190,814</u>	<u>(4,776)</u>
Total stockholders' equity	<u>275,081</u>	<u>79,491</u>
	<u>\$ 830,795</u>	<u>\$ 662,568</u>

See auditors' report and accompanying notes



BLIMPIE OF CALIFORNIA, INC.  
 STATEMENTS OF INCOME (LOSS)  
 FOR THE YEARS ENDED DECEMBER 31,

	<u>2003</u>	<u>2002</u>
<u>Revenue</u>		
Continuing franchise fees	\$ 499,266	\$ 432,179
Initial franchise fees	0	24,000
Other	<u>58,812</u>	<u>54,062</u>
Total income	<u>558,078</u>	<u>510,241</u>
 <u>Expenses</u>		
Continuing licensing fees	150,632	169,442
General and administrative expense	199,117	250,839
Rent	<u>12,739</u>	<u>30,021</u>
Total expenses	<u>362,488</u>	<u>450,302</u>
Income before taxes	195,590	59,939
Income taxes	<u>0</u>	<u>0</u>
Net income	<u>\$ 195,590</u>	<u>\$ 59,939</u>

See auditors' report and accompanying notes

BLIMPIE OF CALIFORNIA, INC.  
 STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
 FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	Common Stock		Paid-in Capital	Equity (Deficit)	Advances to Total
	<u>Shares</u>	<u>Amount</u>			
Balances, January 1, 2002	640	\$ 640	\$ 83,627	\$ (64,715)	\$ 19,552
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,939</u>	<u>59,939</u>
Balances, December 31, 2002	-	640	83,627	(4,776)	79,491
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>195,590</u>	<u>195,590</u>
Balances, December 31, 2003	<u>640</u>	<u>\$ 640</u>	<u>\$ 83,627</u>	<u>\$ 190,814</u>	<u>\$ 275,081</u>

See auditors' report and accompanying notes

BLIMPIE OF CALIFORNIA, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

Increase (Decrease) In Cash

	<u>2003</u>	<u>2002</u>
<u>Cash flows from operating activities</u>		
Net income	\$ 195,590	\$ 59,939
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	30,000	30,000
Depreciation and amortization	5,467	5,470
Changes in operating assets and liabilities		
Increase in accounts receivable	(160,105)	(43,642)
Decrease in accounts payable and accrued expenses	(36,291)	(84,611)
Increase in due to advertising fund	32,828	183,772
Decrease in deferred income	<u>(9,229)</u>	<u>(25,426)</u>
Net cash provided by operating activities	<u>58,260</u>	<u>125,502</u>
<u>Cash flows from investing activities</u>		
Loans to officers	(53,200)	0
Advances to affiliates	<u>0</u>	<u>(83,729)</u>
Net cash used by investing activities	<u>(53,200)</u>	<u>(83,729)</u>
<u>Cash flows from financing activities</u>		
Net payments on short-term borrowings	<u>(14,670)</u>	<u>(6,567)</u>
Net cash used by financing activities	<u>(14,670)</u>	<u>(6,567)</u>
Net increase(decrease) in cash	(9,610)	35,206
Cash, beginning	<u>49,715</u>	<u>14,509</u>
Cash, ending	<u>\$ 40,105</u>	<u>\$ 49,715</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the years for interest	\$ 0	\$ 3,483
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See auditors' report and accompanying notes

BLIMPIE OF CALIFORNIA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002

**Note A**

**Organization and Summary of Significant Accounting Policies**

Blimpie of California, Inc., a California Corporation, (the Company), markets Blimpie restaurant franchises in California, as an area franchisor. All of the Company's business is dependent upon the economic conditions within the state of California.

Cash and cash equivalents:

For purposes of the statement of cash flows, all unrestricted investment instruments with original maturities of three months or less are deemed cash equivalents. The Company had no cash equivalents at December 31, 2003 and 2002.

Revenue recognition:

The Company reports franchise fees as income when all material services or conditions relating to the sale of a franchise have been substantially performed or satisfied in accordance with the terms of the franchise agreement. The Company reports direct costs related to franchise fees when the income is recognized.

Continuing franchise fee income and license expense are based on a percentage of the gross revenues earned by operating restaurant units as defined in the franchise agreements.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation:

Depreciation of equipment is computed principally on an accelerated method over five years based on the estimated useful lives of the assets.

License agreement:

The license agreement cost is being amortized on a straight-line basis over a 20-year period.

Basis of presentation:

Certain 2002 balances have been reclassified to conform to 2003 presentation.

BLIMPIE OF CALIFORNIA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002

**Note B****Franchising Operations****License agreement:**

The Company has a license agreement with Blimpie International, Inc. ("BII"), for the exclusive right to use the "Blimpie" trademark and technical information (recipes, methods, processes, etc.) in California. Terms of the license agreement provide that the Company is charged an initial franchise fee for each California location licensed and a continuing license fee of 2.5% of the gross revenues of the restaurants in operation. The term of the license agreement is for 99 years beginning July 1984 with renewal options as defined in the license agreement.

The license agreement, originally signed in 1984, was amended on April 30, 1992. The amended license agreement requires the Company to license not less than three Blimpie locations annually for the next 15 years. The obligation is cumulative and the Company will be credited in succeeding years for the number of Blimpie locations licensed in excess of three in any given year. Should the Company not comply with this requirement, the license agreement shall be deemed automatically terminated and cancelled. However, the agreement shall remain as to those Blimpie Restaurants developed or in the process of development with respect to any franchise or subfranchise executed between the Company and any third party as of the date of default.

**Significant commitments and obligations:**

In accordance with the terms of each franchisee's agreement, the Company is obligated to provide the following supervision assistance and services: layout, training and pre-opening assistance, operations manual, continuing assistance, as specified in the Uniform Franchise Offering Circular, advertising and promotion, supplies, and pricing.

**Franchise ownership changes:**

For the year ended December 31, 2003, franchise ownership changes are summarized as follows:

Number of franchises in operation as of December 31, 2002	47
Number of franchises opened during the year	3
Number of franchises closed during the year	<u>(5)</u>
Number of franchises in operation at December 31, 2003	<u>45</u>

**Note C****Related Party Transactions****Advances to affiliates:**

At December 31, 2003 and 2002, advances to affiliates with common ownership for working capital purposes totaled \$210,798 for 2003 and \$210,798 for 2002. Interest earned on advances to affiliates totaled \$12,648 for 2003 and \$12,648 for 2002.

BLIMPIE OF CALIFORNIA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2003 AND 2002

**Note C**

**Related Party Transactions - Continued**

Advances to officers:

As of December 31, 2003 and 2002, the Company was owed \$335,988 and \$282,788, respectively, for advances made to two of the Company's officers. Interest was charged at rates of 6% to 7% per annum. Interest earned on advances to officers totaled \$14,760 for 2003 and \$10,397 for 2002.

**Note D**

**Lines of Credit**

The Company has entered into credit agreements with two banks under which it may borrow up to \$100,000 under revolving lines of credit. Current borrowings bear interest from 7.25% to 9.27% per annum. The stockholder has guaranteed borrowings under the lines of credit. During the years ended December 31, 2003 and 2002, interest incurred totaled \$0 and \$3,483, respectively.

**Note E**

**Due to Advertising Fund**

The Company receives a percentage of each franchisee's sales to be placed in an advertising co-operative fund, at the Company's sole discretion as described in the franchise agreements. At December 31, 2003 and 2002, the Company owed \$340,826 and \$307,998, respectively, to the advertising co-operative fund.

**Note F**

**Commitments**

During the years ended December 31, 2003 and 2002, the Company incurred rent expense of \$12,739 and \$30,021, respectively.

**Note G**

**Related Party**

Effective January 24, 2002, an officer of the Company purchased a majority interest in Blimpie International, Inc.

**BLIMPIE OF CALIFORNIA, INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003**



Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Blimpie of California, Inc.

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In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BLIMPIE of CALIFORNIA, INC. as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Habif, Arogeti & Wynn, LLP*

March 19, 2005

Atlanta, Georgia

Habif, Arogeti & Wynn, LLP

Glenridge Highlands Two ♦ 5565 Glenridge Connector ♦ Suite 200 ♦ Atlanta, Georgia 30342

404.892.9651 ♦ Fax 404.876.3913 ♦ [www.hawcpa.com](http://www.hawcpa.com)

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BLIMPIE OF CALIFORNIA, INC.

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BLIMPIE OF CALIFORNIA, INC.  
BALANCE SHEETS  
DECEMBER 31,

ASSETS

	<u>2004</u>	<u>2003</u>
<u>Current assets</u>		
Cash		
Accounts receivable, net of allowance for doubtful accounts of \$30,000 for 2004 and \$30,000 for 2003	\$ 19,023	\$ 40,104
	<u>197,065</u>	<u>236,496</u>
Total current assets	<u>216,088</u>	<u>276,600</u>
<u>Equipment</u> , at cost, net of accumulated depreciation of \$15,059 for 2004 and \$14,989 for 2003	<u>255</u>	<u>325</u>
<u>Other assets</u>		
Advances to affiliates	210,798	210,798
Advances to officers	378,795	335,988
License agreement, net of accumulated amortization of \$96,666 for 2004 and \$92,916 for 2003	<u>3,334</u>	<u>7,084</u>
Total other assets	<u>592,927</u>	<u>553,870</u>
	<u>\$ 809,270</u>	<u>\$ 830,795</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

<u>Current liabilities</u>		
Lines of credit	\$ 63,005	\$ 67,342
Accounts payable and accrued expenses	119,436	121,701
Due to advertising fund	<u>175,218</u>	<u>340,826</u>
Total current liabilities	<u>357,659</u>	<u>529,869</u>
<u>Deferred income</u> , net of deferred expense of \$21,500	<u>25,845</u>	<u>25,845</u>
<u>Stockholder's equity</u>		
Common stock, no par value: 10,000 shares authorized, 640 shares issued and outstanding	640	640
Paid-in capital	83,627	83,627
Retained earnings	<u>341,499</u>	<u>190,814</u>
Total stockholders' equity	<u>425,766</u>	<u>275,081</u>
	<u>\$ 809,270</u>	<u>\$ 830,795</u>

See auditors' report and accompanying notes

BLIMPIE OF CALIFORNIA, INC.  
STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31,

	<u>2004</u>	<u>2003</u>
<u>Revenue</u>		
Continuing franchise fees	\$ 525,962	\$ 499,266
Initial franchise fees	42,000	0
Other	<u>0</u>	<u>58,812</u>
Total income	<u>567,962</u>	<u>558,078</u>
 <u>Expenses</u>		
Continuing licensing fees	139,224	150,632
Initial franchise fees to licensor	21,000	0
General and administrative expense	245,546	199,117
Rent	<u>11,507</u>	<u>12,739</u>
Total expenses	<u>417,277</u>	<u>362,488</u>
Income before taxes	150,685	195,590
Income taxes	<u>0</u>	<u>0</u>
Net income	<u>\$ 150,685</u>	<u>\$ 195,590</u>

See auditors' report and accompanying notes

BLIMPIE OF CALIFORNIA, INC.  
 STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)  
 FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Equity (Deficit)</u>	<u>Advances to Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balances, January 1, 2003	640	\$ 640	\$ 83,627	\$ (4,776)	\$ 79,491
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>195,590</u>	<u>195,590</u>
Balances, December 31, 2003	640	640	83,627	190,814	275,081
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>150,685</u>	<u>150,685</u>
Balances, December 31, 2004	<u>640</u>	<u>\$ 640</u>	<u>\$ 83,627</u>	<u>\$ 341,499</u>	<u>\$ 425,766</u>

See auditors' report and accompanying notes

BLIMPIE OF CALIFORNIA, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

Increase (Decrease) In Cash

	<u>2004</u>	<u>2003</u>
<u>Cash flows from operating activities</u>		
Net income	\$ 150,685	\$ 195,590
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	30,000	30,000
Depreciation and amortization	5,094	5,467
Changes in operating assets and liabilities		
Increase in accounts receivable	(69,431)	(160,105)
Decrease in accounts payable and accrued expenses	(2,265)	(36,291)
Increase(Decrease) in due to advertising fund	(165,608)	32,828
Decrease in deferred income	<u>0</u>	<u>(9,229)</u>
Net cash provided(used) by operating activities	<u>(51,525)</u>	<u>58,260</u>
<u>Cash flows from investing activities</u>		
Loans to officers	(42,807)	(53,200)
Net cash used by investing activities	<u>(42,807)</u>	<u>(53,200)</u>
<u>Cash flows from financing activities</u>		
Net payments on short-term borrowings	(4,337)	(14,670)
Net cash used by financing activities	<u>(4,337)</u>	<u>(14,670)</u>
Net decrease in cash	(98,669)	(9,610)
Cash, beginning	<u>40,105</u>	<u>49,715</u>
Cash, ending	\$ <u>(58,564)</u>	\$ <u>40,105</u>

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the years for interest	\$ 0	\$ 0
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See auditors' report and accompanying notes

BLIMPIE OF CALIFORNIA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

**Note A**

**Organization and Summary of Significant Accounting Policies**

Blimpie of California, Inc., a California Corporation, (the Company), markets Blimpie restaurant franchises in California, as an area franchisor. All of the Company's business is dependent upon the economic conditions within the state of California.

**Cash and cash equivalents:**

For purposes of the statement of cash flows, all unrestricted investment instruments with original maturities of three months or less are deemed cash equivalents. The Company had no cash equivalents at December 31, 2004 and 2003.

**Revenue recognition:**

The Company reports franchise fees as income when all material services or conditions relating to the sale of a franchise have been substantially performed or satisfied in accordance with the terms of the franchise agreement. The Company reports direct costs related to franchise fees when the income is recognized.

Continuing franchise fee income and license expense are based on a percentage of the gross revenues earned by operating restaurant units as defined in the franchise agreements.

**Estimates:**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Depreciation:**

Depreciation of equipment is computed principally on an accelerated method over five years based on the estimated useful lives of the assets.

**License agreement:**

The license agreement cost is being amortized on a straight-line basis over a 20-year period.

**Basis of presentation:**

Certain 2003 balances have been reclassified to conform to 2004 presentation.

BLIMPIE OF CALIFORNIA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

**Note B**  
**Franchising Operations**

**License agreement:**

The Company has a license agreement with Blimpie International, Inc. ("BII"), for the exclusive right to use the "Blimpie" trademark and technical information (recipes, methods, processes, etc.) in California. Terms of the license agreement provide that the Company is charged an initial franchise fee for each California location licensed and a continuing license fee of 2.5% of the gross revenues of the restaurants in operation. The term of the license agreement is for 99 years beginning July 1984 with renewal options as defined in the license agreement.

The license agreement, originally signed in 1984, was amended on April 30, 1992. The amended license agreement requires the Company to license not less than three Blimpie locations annually for the next 15 years. The obligation is cumulative and the Company will be credited in succeeding years for the number of Blimpie locations licensed in excess of three in any given year. Should the Company not comply with this requirement, the license agreement shall be deemed automatically terminated and cancelled. However, the agreement shall remain as to those Blimpie Restaurants developed or in the process of development with respect to any franchise or subfranchise executed between the Company and any third party as of the date of default.

**Significant commitments and obligations:**

In accordance with the terms of each franchisee's agreement, the Company is obligated to provide the following supervision assistance and services: layout, training and pre-opening assistance, operations manual, continuing assistance, as specified in the Uniform Franchise Offering Circular, advertising and promotion, supplies, and pricing.

**Franchise ownership changes:**

For the year ended December 31, 2004, franchise ownership changes are summarized as follows:

Number of franchises in operation as of December 31, 2003	47
Number of franchises opened during the year	3
Number of franchises closed during the year	<u>(5)</u>
Number of franchises in operation at December 31, 2004	<u>45</u>

**Note C**  
**Related Party Transactions**

**Advances to affiliates:**

At December 31, 2004 and 2003, advances to affiliates with common ownership for working capital purposes totaled \$210,798 for 2004 and \$210,798 for 2003. Interest earned on advances to affiliates totaled \$12,648 for 2004 and \$12,648 for 2003.

BLIMPIE OF CALIFORNIA, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2004 AND 2003

**Note C**

**Related Party Transactions - Continued**

**Advances to officers:**

As of December 31, 2004 and 2003, the Company was owed \$378,795 and \$335,988, respectively, for advances made to two of the Company's officers. Interest was charged at rates of 6% to 7% per annum. Interest earned on advances to officers totaled \$19,199 for 2004 and \$14,760 for 2003.

**Note D**

**Lines of Credit**

The Company has entered into credit agreements with two banks under which it may borrow up to \$100,000 under revolving lines of credit. Current borrowings bear interest from 7.25% to 9.27% per annum. The stockholder has guaranteed borrowings under the lines of credit.

**Note E**

**Due to Advertising Fund**

The Company receives a percentage of each franchisee's sales to be placed in an advertising co-operative fund, at the Company's sole discretion as described in the franchise agreements. At December 31, 2004 and 2003, the Company owed \$175,218 and \$340,826, respectively, to the advertising co-operative fund.

**Note F**

**Commitments**

During the years ended December 31, 2004 and 2003, the Company incurred rent expense of \$11,507 and \$12,739, respectively.

**Note G**

**Related Party**

Effective January 24, 2002, an officer of the Company purchased a majority interest in Blimpie International, Inc.



**BLIMPIE OF CALIFORNIA, INC**  
**Financial Statements**  
**December 31, 2005 and 2004**

**EZKR** Certified Public Accountants  
& Consultants  
Eisman, Zucker, Klein & Ruttenberg, LLP

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**BLIMPIE OF CALIFORNIA, INC.**

**Financial Statements**

**December 31, 2005 and 2004**

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### Independent Auditors' Report

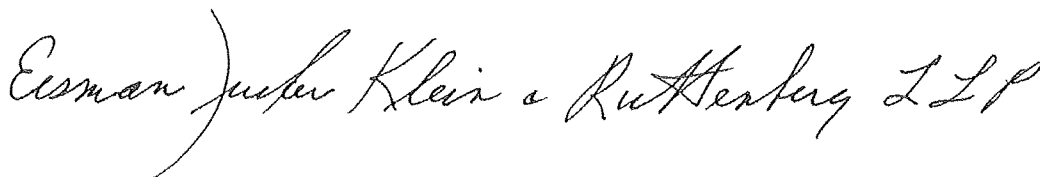
To the Board of Directors of  
Blimpie of California, Inc.

We have audited the accompanying balance sheets of Blimpie of California, Inc. as of December 2005 and the related statements of income, stockholder's equity and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blimpie of California, Inc. as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements of Blimpie of California, Inc. as of and for the year ended December 2004 were audited by other auditors; whose report dated March 19, 2005 expressed an unqualified opinion on those statements.



White Plains, NY  
May 5, 2006

**BLIMPIE OF CALIFORNIA, INC.****Balance Sheets****December 31,****ASSETS**

	<u>2005</u>	<u>2004</u>
<b>Current Assets</b>		
Cash	\$ 15,927	\$ 19,023
Account receivable, net of allowance for doubtful accounts of \$20,000 for 2005 and \$30,000 for 2004	121,482	197,065
Prepaid expenses	376	-
Total Current Assets	<u>137,785</u>	<u>216,088</u>
<b>Equipment</b>		
at cost, net of accumulated depreciation of \$15,314 for 2005 and \$15,059 for 2004	<u>-</u>	<u>255</u>
<b>Other Assets</b>		
Advance to affiliates, net of allowance of \$100,000 for 2005	110,798	210,798
Advance to officers	382,794	378,795
Due from BIXY, Inc.	45,773	-
License agreement, net of accumulated amortization of \$100,000 for 2005 and \$96,666 for 2004	<u>-</u>	<u>3,334</u>
Total Other Assets	<u>539,365</u>	<u>592,927</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 677,150</u></u>	<u><u>\$ 809,270</u></u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current Liabilities</b>		
Lines of credit	\$ 53,686	\$ 63,005
Accounts payable and accrued expenses	28,085	119,436
Due to advertising fund	187,473	175,218
Total Current Liabilities	<u>269,244</u>	<u>357,659</u>
Deferred income, net of deferred expense of \$21,500 in 2004	<u>130,000</u>	<u>25,845</u>
<b>Stockholders' Equity</b>		
Common stock, no par value: 10,000 shares authorized, 640 shares issued and outstanding	640	640
Paid-in capital	83,627	83,627
Retained earnings	193,639	341,499
Total Stockholder's Equity	<u>277,906</u>	<u>425,766</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 677,150</u></u>	<u><u>\$ 809,270</u></u>

See accompanying notes

**BLIMPIE OF CALIFORNIA, INC.**  
**Statements of Income and Retained Earnings**  
**For the Years Ended December 31,**

	2005	2004
<b>Revenue</b>		
Continuing franchise fees	\$ 365,693	\$ 525,962
Initial franchise fees	47,345	42,000
Other	67,888	-
Total Revenue	<u>480,926</u>	<u>567,962</u>
<b>Expenses</b>		
Continuing licensing fees	152,372	139,224
Initial franchise fees to licensor	21,500	21,000
General and administrative expense	328,961	245,546
Rent	12,000	11,507
Total Expenses	<u>514,833</u>	<u>417,277</u>
Net operating income (loss)	(33,907)	150,685
Other Expenses	<u>(113,953)</u>	<u>-</u>
Net Income (Loss)	(147,860)	150,685
Retained earning, beginning	<u>341,499</u>	<u>190,814</u>
Retained earnings, ending	<u><u>\$ 193,639</u></u>	<u><u>\$ 341,499</u></u>

See accompanying notes

**BLIMPIE OF CALIFORNIA, INC.**  
**Statements of Cash Flows**  
**For the Years Ended December 31,**

	2005	2004
<b>Cash Flows from Operating Activities</b>		
Net Income (Loss)	\$ (147,860)	\$ 150,685
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for bad debts	90,000	30,000
Depreciation and amortization	3,589	5,094
Deferred income	104,155	-
(Increase) decrease in:		
Accounts receivable	85,583	(69,431)
Prepaid expenses	(376)	-
Due from BIXY, Inc.	(45,773)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(91,351)	(2,265)
Due to advertising fund	12,255	(165,608)
Net cash provided (used) by operating activities	<u>10,222</u>	<u>(51,525)</u>
<b>Cash Flows from Investing Activities</b>		
Loan to officers	<u>(3,999)</u>	<u>(42,807)</u>
Net cash used by investing activities	<u>(3,999)</u>	<u>(42,807)</u>
<b>Cash Flows from Financing Activities</b>		
Net payment on short-term borrowings	<u>(9,319)</u>	<u>(4,337)</u>
Net cash used by financing activities	<u>(9,319)</u>	<u>(4,337)</u>
<b>Net Decrease in Cash</b>	<b>\$ (3,096)</b>	<b>(98,669)</b>
Cash, beginning	<u>19,023</u>	<u>117,692</u>
<b>CASH, ENDING</b>	<b><u>\$ 15,927</u></b>	<b><u>\$ 19,023</u></b>
<b>Supplemental Information</b>		
Cash paid during the years for interest	\$ 5,791	\$ -

See accompanying notes

**BLIMPIE OF CALIFORNIA, INC.****Notes to Financial Statements  
For the Years Ended December 31, 2005 and 2004****Organization**

Blimpie of California, Inc., a California Corporation, (the Company), markets Blimpie restaurant franchises in California, as an area franchisor. All of the Company's business is dependent upon the economic conditions within the state of California.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, all unrestricted investment instruments with original maturities of three months or less are deemed cash equivalents. The Company had no cash equivalents at December 31, 2005 and 2004.

*Revenue Recognition*

The Company reports franchise fees as income when all material services or conditions relating to the sale of franchise have been substantially performed or satisfied in accordance with the terms of the franchise agreement. The Company reports direct cost related to franchise fees when the income is recognized.

Continuing franchise fee income and license expense are based on a percentage of the gross revenues earned by operating restaurant units as defined in the franchise agreements.

*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Depreciation*

Depreciation of equipment is computed principally on an accelerated method over five years based on the estimated useful lives of the assets.

*License Agreement*

The license agreement cost is being amortized on a straight-line basis over a 20-year period.

## BLIMPIE OF CALIFORNIA, INC.

Notes to Financial Statements  
For the Years Ended December 31, 2005 and 2004**Franchising Operations***License Agreement*

In 1984 the Company entered into a license agreement with Blimpie International, Inc. (BII), for the exclusive right to use the "Blimpie" trademark and technical information (recipes, methods, process, etc.) in California. Terms of the license agreement provide that the Company is charged an initial franchise fee for each California location licensed and a continuing license fee of 2.5% of the gross revenues of the restaurant in operation. The term of the license agreement is for 99 years beginning July 1984 with renewal options as defined in the license agreement. In January 2006 the agreement was assigned to KBI Holdings, LLC.

The license agreement, originally signed in 1984, was amended on April 30, 1992. The amended license agreement requires the Company to license not less than three Blimpie locations annually for the next 15 years. The obligation is cumulative and the Company will be credited in succeeding years for the number of Blimpie locations licenses in excess of three in any given year. Should the Company not comply with this requirement, the license agreement shall be deemed automatically terminated and cancelled. However, the agreement shall remain as to those Blimpie Restaurants developed or in the process of development with respect to any franchise or subfranchise executed between the Company and any third party as of the date default.

*Significant Commitments and Obligations:*

In accordance with the terms of each franchisee's agreement, the Company is obligated to provide the following supervision assistance and services: layout, training and pre-opening assistance, operations manual, continuing assistance, as specified in the Uniform Franchise Offering Circular, advertising and promotion, supplies and pricing.

*Franchise ownership changes:*

For the year ended December 31, 2005 and 2004, franchise ownership changes are summarized as follows:

	2005	2004
Number of franchise in operation – beginning of year	29	39
Number of franchise opened during the year	4	4
Number of franchise closing during the year	(7)	(14)
Number of franchise in operation – end of year	26	29



BLIMPIE OF CALIFORNIA, INC.  
Notes to Financial Statements  
For the Years Ended December 31, 2005 and 2004

**Related Party Transactions**

*Advances to Affiliates*

At December 31, 2005 and 2004, advances to affiliates with common ownership for working capital purposes totaled \$110,798 and \$210,798, respectively.

*Advances to Officers*

As of December 31, 2005 and 2004, the Company was owed \$ 382,794 and \$ 378,795, respectively, for advances made to two of the Company's officers.

**Line of Credit**

The Company has entered into credit agreements with two banks under which it may borrow up to \$100,000 under revolving lines of credit. Current borrowing bear interest from 7.25% to 9.27% per annum. The stockholder has guaranteed borrowings under the lines of credit.

**Due to Advertising Fund**

The Company receives a percentage of each franchisee's sales to be placed in an advertising co-operative fund, at the Company's sole discretion as described in the franchise agreements. At December 31, 2005, and 2004, the Company owed \$ 187,473 and \$175,218, respectively, to the advertising co-operative fund.

**Commitments**

During the years ended December 31, 2005 and 2004, the Company incurred rent expense of \$12,000 and \$11,207, respectively.

**BLIMPIE OF CALIFORNIA, INC**  
**Financial Statements**  
**December 31, 2006 and 2005**

**EZKR** Certified Public Accountants  
& Consultants  
Eisman, Zucker, Klein & Ruttenberg, LLP

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**BLIMPIE OF CALIFORNIA, INC.**  
**Financial Statements**  
**December 31, 2006 and 2005**

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Eisman, Zucker, Klein & Ruttenberg, LLP

### Independent Auditors' Report

To the Board of Directors of  
Blimpie of California, Inc.

We have audited the accompanying balance sheets of Blimpie of California, Inc. as of December 2006 and 2005 and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Blimpie of California, Inc. as of December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Eisman, Zucker Klein & Ruttenberg LLP*

March 17, 2007

**BLIMPIE OF CALIFORNIA, INC.**  
**Balance Sheets**  
**December 31,**

**ASSETS**

	<u>2006</u>	<u>2005</u>
<b>Current Assets</b>		
Cash	\$ 102,265	\$ 15,927
Accounts receivable, net of allowance for doubtful accounts of \$20,000 for 2005	9,902	121,482
Advances to affiliates-short term	60,000	-
Advance to officers-short term	50,000	-
Prepaid expenses	-	376
Total Current Assets	<u>222,167</u>	<u>137,785</u>
<b>Equipment</b> at cost, net of accumulated depreciation of \$15,314	<u>-</u>	<u>-</u>
<b>Other Assets</b>		
Advance to affiliates, net of allowance of \$125,000 and \$100,000	33,489	110,798
Advance to officers	310,295	382,794
Due from BIXY, Inc.	-	45,773
Total Other Assets	<u>343,784</u>	<u>539,365</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 565,951</u></u>	<u><u>\$ 677,150</u></u>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Current Liabilities</b>		
Lines of credit	\$ 44,665	\$ 53,686
Accounts payable and accrued expenses	82,035	28,085
Due to advertising fund	21,170	187,473
Total Current Liabilities	<u>147,870</u>	<u>269,244</u>
<b>Long-term debt</b>	170,000	-
Deferred income, net of deferred expense	107,867	130,000
<b>Stockholders' Equity</b>		
Common stock, no par value: 10,000 shares authorized, 640 shares issued and outstanding	640	640
Paid-in capital	83,627	83,627
Retained earnings	55,947	193,639
Total Stockholders' Equity	<u>140,214</u>	<u>277,906</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u><u>\$ 565,951</u></u>	<u><u>\$ 677,150</u></u>

See accompanying notes

**BLIMPIE OF CALIFORNIA, INC.**  
**Statements of Income and Retained Earnings**  
**For the Years Ended December 31,**

	2006	2005
<b>Revenue</b>		
Continuing franchise fees	\$ 386,592	\$ 365,693
Initial franchise fees	33,000	47,345
Other	38,000	67,888
<b>Total Revenue</b>	<u>457,592</u>	<u>480,926</u>
<b>Expenses</b>		
Continuing licensing fees	151,012	152,372
Initial franchise fees to licensor	10,260	21,500
General and administrative expense	409,012	340,961
<b>Total Expenses</b>	<u>570,284</u>	<u>514,833</u>
<b>Net operating loss</b>	(112,692)	(33,907)
<b>Other Expenses</b>	<u>(25,000)</u>	<u>(113,953)</u>
<b>Net Loss</b>	(137,692)	(147,860)
<b>Retained earning, beginning</b>	<u>193,639</u>	<u>341,499</u>
<b>Retained earnings, ending</b>	<u><u>\$ 55,947</u></u>	<u><u>\$ 193,639</u></u>

See accompanying notes

**BLIMPIE OF CALIFORNIA, INC.**  
**Statements of Cash Flows**  
**For the Years Ended December 31,**

	2006	2005
<b>Cash Flows from Operating Activities</b>		
Net Loss	\$ (137,692)	\$ (147,860)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Provision for bad debts	25,000	90,000
Depreciation and amortization	-	3,589
Deferred income	(22,133)	104,155
(Increase) decrease in:		
Accounts receivable	131,580	85,583
Prepaid expenses	376	(376)
Advances to affiliates	17,309	-
Due from BIXY, Inc.	45,773	(45,773)
Increase (decrease) in:		
Accounts payable and accrued expenses	53,949	(91,351)
Due to advertising fund	(166,303)	12,255
Net cash provided (used) by operating activities	(52,141)	10,222
<b>Cash Flows from Investing Activities</b>		
Advances to officers	(22,500)	(3,999)
Net cash used by investing activities	(22,500)	(3,999)
<b>Cash Flows from Financing Activities</b>		
Short-term borrowings	(9,021)	(9,319)
Long-term borrowings	170,000	-
Net cash provided (used) by financing activities	160,979	(9,319)
<b>Net Increase (Decrease) in Cash</b>	<b>\$ 86,338</b>	<b>\$ (3,096)</b>
Cash, beginning	\$ 15,927	19,023
<b>CASH, ENDING</b>	<b>\$ 102,265</b>	<b>\$ 15,927</b>
<b>Supplemental Information</b>		
Cash paid during the years for interest	\$ 3,880	\$ 5,791
Cash paid during the years for taxes	\$ 4,020	\$ 3,451

See accompanying notes

**BLIMPIE OF CALIFORNIA, INC.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2006 and 2005**

**Organization**

Blimpie of California, Inc., a California Corporation, (the Company), markets Blimpie restaurant franchises in California, as an area franchisor. All of the Company's business is dependent upon the economic conditions within the state of California.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, all unrestricted investment instruments with original maturities of three months or less are deemed cash equivalents. The Company had no cash equivalents at December 31, 2006 and 2005.

*Revenue Recognition*

The Company reports franchise fees as income when all material services or conditions relating to the sale of franchise have been substantially performed or satisfied in accordance with the terms of the franchise agreement. The Company reports direct cost related to franchise fees when the income is recognized.

Continuing franchise fee income and license expense are based on a percentage of the gross revenues earned by operating restaurant units as defined in the franchise agreements.

*Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles required management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Depreciation*

Depreciation of equipment is computed principally on an accelerated method over five years based on the estimated useful lives of the assets.



**BLIMPIE OF CALIFORNIA, INC.**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2006 and 2005**

**Franchising Operations**

*License Agreement*

In 1984 the Company entered into a license agreement with Blimpie International, Inc. (BII), for the exclusive right to use the "Blimpie" trademark and technical information (recipes, methods, process, etc.) in California. Terms of the license agreement provide that the Company is charged an initial franchise fee for each California location licensed and a continuing license fee of 2.5% of the gross revenues of the restaurants in operation. The term of the license agreement is for 99 years beginning July 1984 with renewal options as defined in the license agreement. In January 2005 the agreement was assigned to KBI Holdings, LLC.

The license agreement, originally signed in 1984, was amended on April 30, 1992. The amended license agreement requires the Company to license not less than three Blimpie locations annually for the next 15 years. The obligation is cumulative and the Company will be credited in succeeding years for the number of Blimpie locations licenses in excess of three in any given year. Should the Company not comply with this requirement, the license agreement shall be deemed automatically terminated and cancelled. However, the agreement shall remain as to those Blimpie Restaurants developed or in the process of development with respect to any franchise or subfranchise executed between the Company and any third party as of the date default.

*Significant Commitments and Obligations:*

In accordance with the terms of each franchisee's agreement, the Company is obligated to provide the following supervision assistance and services: layout, training and pre-opening assistance, operations manual, continuing assistance, as specified in the Uniform Franchise Offering Circular, advertising and promotion, supplies and pricing.

*Franchise ownership changes:*

For the year ended December 31, 2006 and 2005, franchise ownership changes are summarized as follows:

	2006	2005
Number of franchise in operation – beginning of year	26	29
Number of franchise opened during the year	5	4
Number of franchise closing during the year	(3)	(7)
Number of franchise in operation – end of year	<u>28</u>	<u>26</u>